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# FINANCE AND WAR

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CAPTAIN R. S. HAMILTON-GRACE



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## **FINANCE AND WAR**



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BY

CAPTAIN R. S. HAMILTON-GRACE, *p.s.c.*

13TH HUSSARS

LONDON

HUGH REES, LTD.

119, PALL MALL, S.W.

1910

“JUST as questions of the feeding of children of the poorer classes, housing, the physical training of people, and food supplies in time of war, are all eventually translated by success or failure on the field of battle, so finance itself deserves a place, and a very important place, in the study of what are known as defence problems. This place it has never obtained in England, and until it does we shall not only secure less safety and stability in business than we ought to possess, but also lose an auxiliary arm which we are pre-eminently fitted to employ with deadly effect in favour of allies, and against an enemy that challenges us to battle.”—*The War in the Far East*, by the Military Correspondent of the *Times*.

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## PREFACE

I AM no author and no financier, and if some of the terms I have used are not technical, I trust those better versed in finance than myself will excuse me. My facts and figures I have taken from the works of others, and I have taken much care to get them as accurate as possible. The conclusions are my own, and I ask no one to agree with them, for if I have caused a few people to think out this important question for themselves, I shall be satisfied.

### WORKS CONSULTED.

- “ Lombard Street.” Bagehot.
- “ War.” Bloch.
- “ British Economics.” Lawson.
- “ Das Geld in Russische Kriege.” Helffrich.
- “ Economic Enquiries.” Giffen.
- “ Kriegsführung und Geld.” Ludwig.
- “ Foreign Exchanges.” Goschen.
- “ Finanzielle Kriegsbereitschaft und Kriegsführung.” Riesser.
- “ Whitaker’s Almanack.”
- “ Krieg und Geld.” Hellar.

R. S. HAMILTON-GRACE,  
*Captain, 13th Hussars.*

January, 1910.



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# FINANCE AND WAR

## CHAPTER I

### THE COST OF WAR

“Three things are chiefly necessary for carrying on war—viz., Gold, Gold, Gold.”—MONTECUCCULI.

THE fact that there is very little literature in English on the subject of “The Influence of Money on War” shows that, up to the present, not much account has been taken of it, and yet to judge between the overestimate of the financier and the underestimate of the soldier requires study.

War and money are so intimately connected that they cannot be studied apart; war cannot be carried on without money, nor can money be made and kept without war, or, at least, the preparation for war. Thus, then, war, policy, and finance must go hand in hand; they must be worked together, and they must be studied together. This, however, is easier said than done, for though there are many treatises on war, many on finance, many on policy, yet there is none on all three combined. The following is an attempt to give some data for

the study of war and finance, and, as a preliminary, the financial aspect of the wars since the time of Frederick the Great will be shortly examined.

It must not be forgotten that in these early wars conditions were dissimilar to those of the present day ; for instance, Frederick's armies were composed of mercenaries who fought for the highest bidder, whereas now we have national low-paid armies. The food stores and accommodation for Frederick's armies were nothing in comparison to what is required now ; again, the purchasing power of money in Frederick's time was but one-fifth of what it is at present.

Great as are the size of modern armies on a war footing, the expense of their upkeep is not comparatively so high now as in the eighteenth century. Frederick the Great spent about 60 per cent. of his income on the army ; Napoleon, in 1808, about 64 per cent. Just before the war of 1870 France was spending 39.8 per cent. and Prussia 35 per cent., while Russia was spending 40 per cent. In 1905-1906 England was spending 22 per cent. of her income for military purposes, France 28 per cent., the German Empire 14.25 per cent.

Between 1688 and 1735 England spent £311,754,470 on war, the revolution of 1688 adding £16,000,000 to the National Debt, Marlborough's campaigns £38,000,000, and the American War £121,000,000.

This sum was further increased by the campaigns 1793-1816. against Napoleon, 1793-1816, which cost England some £831,446,449, of which £601,500,343 was put to the National Debt.

The First and Second Silesian War, a total of Silesian War. four years' war, cost Frederick some £39,000,000.

The Jena Campaign cost Prussia in all—*i.e.*, contributions, supplies on requisition, and war expenses—the sum of £56,450,000, while Napoleon reckoned a pure gain of £20,680,000.

Napoleon's campaign in Spain cost £28,000,000 ; Napoleon's Spanish Campaign. of this sum France, contrary to Napoleon's usual custom of making war support war, had to pay one-half, as Spain was too exhausted to pay more.

The wars of 1805-1810 actually cost France but 1805-1810. £24,840,000.

The wars against Napoleon cost England £831,446,449.

The war against Turkey in 1828 cost Russia 1828. some £27,200,000.

The war in the Crimea cost Russia in 1854 Crimea, 1854. £9,300,000, in 1855 £16,900,000, and altogether £53,300,000.

The expenses of England were £74,000,000, of which £33,000,000 were placed to the National Debt.

France's share came to £66,400,000.

The Italian War of 1859 cost Austria 1859. £38,100,000 and France £15,000,000.

**American Civil War.** During the American Civil War both North and South expended about £560,000,000; the war raised the National Debt of the North from £10,800,000 to £536,400,000, and besides this there was an issue of £144,200,000 paper money.

**1866.** The Austro-Prussian War of 1866 involved an expenditure of about £66,000,000, and cost Prussia £18,450,000.

**1870-1871.** The direct cost of the Franco-German War to France was £169,000,000, to Germany £65,000,000. For this sum of £234,000,000, a war in which 2,000,000 men were engaged lasted eight months.

Besides, however, the direct cost of the war, there was in France a loss of income of £150,000,000, and a loss in business of £112,000,000; in Germany a loss of £50,000,000. The total cost of the war, then, may be taken at £546,000,000, of which £433,000,000 is chargeable against capital, and £113,000,000 against revenue.

To France's losses must be added the indemnity of £200,000,000 and Alsace-Lorraine, which represented capital value of £64,000,000; the total of France's losses amounted, therefore, to £695,000,000. Of this sum, £264,000,000 (indemnity and Alsace-Lorraine) was paid direct to Germany, whose expenses had amounted to but £115,000,000. Germany, however, had only spent £90,000,000 out of capital (the remainder being raised by increased taxation); as a result of the war, there-

fore, Germany was actually £174,000,000 to the good.\*

The war against Turkey cost Russia altogether 1877. some £102,000,000, or 8s. per man per day.

The war against China cost Japan £30,000 per 1894. day. Total expenditure from June, 1894, to November, 1896, £20,047,550, of which £3,595,513 went to the navy.

\* “ From July 17, 1870 (first day of mobilization), to May 18, 1871—*i.e.*, 305 days—the war cost Germany £87,500,000, or £285,000 a day (Von Blume), or 4s. 6d. per man per day.

“ In this sum is included the amounts paid for payments in kind, etc., but not for re-establishment of war material, widows’ and orphans’ pensions, and compensation for private losses.”—RIESSER.

“ The purely military expense amounted to £77,550,000 for 245 days, or £315,000 per day.

“ The average of the German troops, both mobile and immobile, was 1,254,376 men.

“ If we reckon the whole cost of the war, we must add £57,450,000, a total cost of £135,000,000, or £550,000 per day, or 8s. 6d. per man per day.

“ In this computation are reckoned amounts for invalid pensions, compensation for war damages, and rearmament costs.

“ In making these estimates, the pure cost of the army and navy remain as before, and what is here given is surplus to that.”—WAGNER.

“ The cost of the war to France, inclusive of indemnity, but exclusive of rearmament and compensation, was given by the Finance Minister in 1873 as £392,825,720.

“ The purely war costs amounted to £76,480,000 for 245 days, or £312,000 per day.”

1899-  
1902.

The Boer War (October 11, 1899, to May 31, 1902) cost England some £211,256,000 for a strength of about 200,000 men, or £219,600 a day, or £1 per man per day.

Russso-  
Japanese  
War.

The total cost of the Russo-Japanese War was £450,000,000.

The Russian National Debt was raised from £663,600,000 to £1,791,750,000. Although the total interest was raised from £26,400,000 to £32,509,000, the part of this payable out of Russia was only raised by £320,000.

Russia raised a total of £152,400,000 for the war, and the average cost worked out at £6,700,000 a month, or £335,000 a day.

The Japanese National Debt was raised from £5,600,000 to £184,000,000, and of this £184,000,000 no less than £110,000,000 were in foreign hands.

The sum due for interest was raised from £2,600,000 to £6,200,000, and the total interest paid amounted to £9,000,000.

The war cost Japan £116,000,000, or £5,800,000 per month, or £193,333 a day.\*

These facts give us something to go upon when trying to estimate the cost of a future war.

Dr. J. Riesser, in his "Finanzielle Kriegs-

\* "Pure cost of the war from February 20, 1904, to end of August, 1905: Amount, Russian side, £143,650,000, or £1 ls. per head of population; amount, Japanese side, £121,200,000, or £2 12s. per head of population." — VON RIESSEER.

bereitschaft und Kriegsführung," estimates the cost to Germany of a future war (exclusive of amounts due for family allowances, requisitions, refittings, compensations, and loss of trade) will amount to 6s. per man per day. He further estimates that Germany will not require more than 3,000,000 men at any one given time.

The cost, therefore, would be 3,000,000 at 6s., £900,000 per day, or £27,000,000 per month, or £324,000,000 per year, and of this sum he estimates at least £122,500,000\* will be required during the first six weeks after the declaration of war.

Hans Hellar, another German writer, estimates the cost of a present-day mobilization of the German forces at £100,000,000 to £200,000,000 on a basis of 5s. per man per day.

An estimate for our own forces must of necessity be somewhat different, for not only is the pay of our soldiers much higher than that of a conscript army, but also in all probability we shall have to fight across the sea.

The cost of the war in South Africa averaged, roughly, about £1 per man per day. This basis also is somewhat misleading, for it was obtained from a war fought some 6,000 miles away from

\* Made up as follows :

|                                  |    |              |
|----------------------------------|----|--------------|
| Food, etc., for Army and Navy    | .. | £60,000,000  |
| Money for trade and contracts    | .. | 50,000,000   |
| Cash withdrawals, owing to panic | .. | 11,500,000   |
|                                  |    | £122,500,000 |

England, and one in which many of the troops were receiving absurdly high rates of pay. It is probable, though, that the correct figure lies somewhere between the 6s. of the Germans and the £1 of the South African War—say, 15s. per man per day for the expeditionary force, and 5s. per day for the Territorial Force at home.

There are, then, two distinct forms of war to estimate for :

1. The normal war—*i.e.*, one in which the expeditionary force of 120,000 men is fighting overseas, while the Territorial Army of 300,000 is mobilized at home.

2. The abnormal war—*i.e.*, an invasion of England, in which the whole of our forces are at home.

We will take the latter first. If this occurred, for perhaps the first time in history the average Englishman would understand the stern reality of war, and the duty of every citizen to his country in respect of both money and personal service. The only chance of saving the situation would be by heroic measures, and upon this no estimate can be based.

Then there is the other case, the normal war, in which it is assumed that 120,000 men, the expeditionary force, are fighting on the Continent, and that the 300,000 Territorials are at home. Now to produce this 120,000 men, and to keep it up to war strength for six months, will require

the greater portion of the regulars at home, 90,000, the Special Reserve, 80,000, and the Army Reserve,\* 142,000, a total of  $(80 + 142 + 90,000)$ , 312,000 men.

Now, 312,000 men at 15s. a day = £234,000

300,000 men at 5s. a day = £75,000

Extra charge for navy = £25,000

Or a total charge of = £334,000 a day.

A year's war, then, would cost us £121,910,000.

\* The Army Reserve will shortly fall to 80,000 owing to 7 years colour service now obtaining.

## CHAPTER II

### HOW THE COST OF WAR HAS BEEN MET

1745—1866

HAVING made an estimate of the probable cost, the next thing is to determine how to meet it, and once again we turn to the pages of history to see what past experience is before deciding what we should do; and it is curious to note that England employed the same methods of raising the £311,754,470 required for the wars between 1688 and 1785 as she did in 1900-1902—*i.e.*, two-thirds loan, one-third taxation.

*Frederick the Great.* When Frederick ascended the throne of Prussia, he was lucky enough to receive as legacies an extremely good army and treasure of £1,500,000.

With this sum and the yearly revenue Frederick managed to carry through the First and the greater part of the Second Silesian War—practically four years' continuous warfare—the mobilization for the Second Silesian War alone costing £750,000.

*1745. Silesian War.* However, by 1745 Frederick's treasure was finished, and an attempt to raise a loan in Holland failed, while negotiations for a French subsidy fell through. Frederick's maxim had ever been that

military movements should never be stopped through lack of funds, and to this end he gave his most careful attention, even going so far as to cut the Court expenses down to the lowest ebb in order to replenish his war-chest. But economies, though excellent as an adjunct, alone are not enough for carrying on war, and all other attempts at a foreign loan having failed, Frederick resorted to a compulsory inner loan of £202,500.

During the peace which followed the Silesian War the King, ever faithful to his maxim of replenishing the war-chest whenever possible, would not rest till he had a sum of £3,000,000, which he calculated would enable him to carry on a war for four years, his estimate for the yearly extra cost of war being £750,000, and, indeed, before the outbreak of the Seven Years' War he succeeded in amassing £1,980,000. In making his preparations he was not particular as to the means he employed. He disliked issuing foreign loans, and, indeed, he would have found it difficult to find takers even if he had tried to do so. The necessary money was obtained by, firstly, issuing a Frederick d'or, in net value two-thirds of its face value, and forcing it on the public by compulsion ; and, secondly, by issuing a compulsory inner loan of £562,500, to which all lands occupied by Prussia were forced to contribute.\* Pensions and salaries were paid

1755.  
Seven  
Years'  
War.

\* During the war Saxony paid £7,200,000 ; Meeklenberg, £630,000 ; Bamberg, £150,000 ; Wurzburg, £150,000.

in paper bills on the Treasury, and at the end of the war these were settled at current price. The King's calculations, however, were entirely at fault, and the first year of the war was so expensive that in 1757 the Treasury was nearly exhausted, while the second year cost £2,500,000 for a strength of 150,000 men. As his difficulties increased, the King first tried other means, and then issued more and more base coin. At first this base coin was not allowed into Prussia, but was exclusively for the use of the army stationed in foreign lands, but after Kolin the King was forced to convert the greater part of his silver treasure into base talers, and the sum thus produced, £9,000, was made current in Prussia. Finally, in 1759, the whole country became flooded with this base coin. In Leipsic 1 mark\* equalled 40 talers, and in Prussia 30 talers ; in consequence the revenue sank, and a surtax of 10 per cent. had to be imposed. Through his debasing the coin the King obtained some £4,350,000, and at the end of the war the possessors of the base coin received its current, and not its nominal, value.

So great, however, was the need for gold that the King, in April, 1758, concluded a treaty with England, whereby the latter undertook to pay a yearly subsidy of £670,000. This money was paid in specie, and was converted by Frederick into base coin, so that £50,000 became £100,000.

\* Normal value, 1 mark = 14 talers.

At the end of the war the King had some £4,410,000, which had increased to £7,500,000 at his death.

His measures during the war had brought in some £25,500,000.

It was largely due to Frederick's clever expedients, and to his adherence to the rule of never allowing his military projects to be upset through lack of gold, that he was able to bring the war to a successful conclusion. Even at the outset Austria became pressed for money, and in 1758 a capital tax of 10 per cent. on all movable property was imposed, followed in 1759 by a war tax of 1 to 6 gulden on each person, and the issue in Lower Austria of a compulsory loan of 3 per cent. on all property over £83 value.

By 1760 the limit of taxation had almost been reached, and yet it was as necessary as ever to prepare, as this was likely to be the decisive year of the campaign. Hungary, for selfish reasons, would not help financially, and the expedient of raising loans at high interest, coupled with the reduction of officers' pay, was resorted to. In 1761 the Empress turned to Lower Austria for another loan, and in September the war debt stood at £7,333,333, the State income at the time being £2,000,000. No more money could be got, and in December, at a time when Austria's position both strategically and tactically was good, the Empress, contrary to all military advice, was

Austria in  
the Seven  
Years'  
War.

forced to disband two companies per regiment. The effect of this reduction was to neutralize all advantage, and finally peace had to be declared, owing to the financial impossibility of going on.

Altogether Austria had raised some £12,833,333 in loans, besides the issue of much paper.

Great as was the treasure left by Frederick the Great, it was to a large extent reduced by the Dutch War of 1787, and the wars against the French Revolutionary Government finished what was left, so that in 1794 the whole sum had disappeared.

The poverty of Prussia at this time was so great that Frederick's successor wished to do all in his power to avoid raising the taxes, and therefore two foreign loans were floated, one in 1793 and one in 1794.

This was not enough, and the old expedient of issuing base coin was once more brought into play, £583,333 worth of small coinage below its face value being issued.

In spite of all these expedients, aided as they were by English subsidies, the dearth of money and the meagreness of the results attained in the war led to the Peace of Basle being concluded in April, 1795.

Frederick William II. At his death Frederick William II. left a National Debt of £4,000,000, of which £2,333,333 had been used for war.

Frederick William III. followed the example of <sup>Frederick William</sup> his illustrious predecessor, and took immediate steps to replenish his empty coffers. Already by 1806 he had paid off £533,333, and amassed a war-chest of £1,092,666.

The mobilization of 1805 cost £525,000, which <sup>1805.</sup> necessitated the issue of a loan for £1,666,666. This proving insufficient for the war, a sum of £416,666 was issued in Treasury bills, and an issue of £1,500,000 worth of small coin brought in a further £500,000.

These measures appear to have sufficed for the actual prosecution of the campaign, but it is difficult to form a true estimate of Prussia's finances at the end of the war, as Napoleon seized the State revenue for his own purposes during the two years following the war. It was his intention thus to weaken Prussia once for ever, an example that the Prussians did not forget in 1871. By the terms of the peace Prussia was not to be evacuated till the war indemnity of £4,800,000 had been paid. By the time the French army left they had cost Prussia some £14,250,000.

Napoleon reckoned his gain from Prussia at £20,680,000.

Napoleon succeeded in his object, and left Prussia bankrupt. Interest on loans could not be paid except in negotiable interest bills. Government employés received their pay, and contractors their bills, in paper. Treasury bills sank to 27 per cent.

1812. Hardly had Prussia begun to recover when she was again overwhelmed, through being used by Napoleon as a base for his expedition to Russia in 1812, which cost Prussia some £46,350,000.

1813. To refill the Treasury fresh loans were raised—four inner, one Dutch—and property and income tax introduced, and compulsory issue of Treasury bills was made. These measures, aided by the splendid patriotism of the people and a subsidy from England of £675,000, enabled the preparations for 1813 to be made. A peculiar feature of this period was that the Military Governments into which the country was divided raised their own loans, while the provinces themselves equipped and maintained the Landwehr.

The war over, all loans possible were repaid, and those which could not be paid were converted into 4 per cent. Consols. The French indemnity of £5,800,000 helped greatly to re-establish Prussian finance.

An idea of the state of Prussia can be gained from the price of Treasury bills: 1808=27 per cent. ; 1811=91 per cent. ; 1812=38 per cent. ; after 1812=56 per cent. ; after Leipsic=50 per cent. ; and thence=99 per cent.

France in the wars of the Revolution. The difficulties of Prussia to provide the funds necessary for the war were nothing in comparison to those of the young Revolutionary Government. It started with a debt left by the kingdom, which

required £8,840,000 in yearly interest out of a total income of £19,000,000. As may be imagined, loans were impossible, for no one trusted the Revolutionary Government, and the necessity for money being imperative, large sums of paper money, supported by compulsory circulation, and secured on church, emigrant, and royal property, were issued. These notes were called “assignats,” and by 1790 £48,000,000 worth had been issued.<sup>1790</sup> By 1792 they were worth one-third nominal value.

By 1793 assignats had dropped to one-sixth<sup>1793</sup> face value, and the Government tried methods of compulsion to prevent a further decline. At once trade stopped, and the price of food rose; on a compulsory price-list being fixed, no one would sell.

The Government now found the greatest difficulty in feeding its armies, and, in order to procure necessary supplies, took part of the taxes in kind. At the same time a tax of 10 per cent. on all incomes of £40 to £400, and of the surplus on all incomes of £400, was imposed.

In order to strengthen the army a further issue of paper was made in 1794, which had the effect<sup>1794</sup> of still further depressing the assignats, with the result that trade stopped, and food-stuffs were not brought up for sale. The system of living by requisition, which Dumoriez had instituted in Belgium, and which had been stopped by the Government, had to be reintroduced.

In the year 1795 the total issue of assignats<sup>1795</sup>.

reached the sum of £1,800,000,000, while their price fell to 1 per cent. of their nominal value.

Things were now desperate, and all efforts at loans proving unsuccessful—for the people had sent their money abroad for safety—the Government issued territorial mandates—*i.e.*, bills on the future sale of national lands, the actual piece of land being named. The issue was overdone, with the result that the mandates fell to 3 per cent. face value.

At last the crisis of bankruptcy came, and the army, instead of being paid and fed, received the order to enter hostile country and make war support war.

This order is worthy of note, for it changed the whole aspect of war; the penniless conscript armies did not suffer from lack of gold. It was possible for men like Napoleon to follow their ambition. On his campaign in Italy money had practically no influence at all, for when short of money he merely levied contributions, and stole and sold old treasures, so that six months of active war cost France but £18,000, and towards the end of the war he was not only sending gold to Paris, but supporting Moreau with £40,000.

Similarly, in 1797, he compelled Venice to pay £40,000 a month, and in his peace with the Pope financial considerations had an important place.

1798. But the state of France was unsatisfactory:

chaos did not help to produce money, and the expedition to Egypt swallowed up most of the money from Italy, and, to make matters worse, war in Germany and Italy broke out again ; the Government raised a compulsory loan of £4,000,000, but for the most part the armies foraged for themselves.

When, in 1799, the Directory ceased and <sup>1799.</sup> Napoleon seized power, matters were still in dire confusion ; there was no money in the Treasury, and both the army and officials had been without pay for some time. Finances were almost the first care of Napoleon, and, in order to create specie, an income-tax, payable in specie, was introduced, while the buyers of the national lands, who had paid partly in IOU, were forced to convert them into gold. £8,000,000 arrears of taxes were called up. These measures were necessary, as it was impossible to raise loans, and indeed, Napoleon never favoured loans.

In 1802 he devised a system of indirect taxation. <sup>1802.</sup> Like others financially hard pressed, he tried the issue of notes, and authorized the Bank of France, which had been formed in 1800, to issue paper, but the issue fell flat, for no one had any trust in the bank, and their previous experience in assignats did not make people favourable to paper of any sort.

In 1805 the war with Austria broke out, and <sup>1805.</sup> Napoleon, trusting to his old maxim of making

war support war, hastened off across the enemy's border. He did not underestimate the bad state of his finances, but trusted to victory to put them right. Before starting he wrote: "The condition of finance is bad, but this is neither the time nor place to bring it into order."

His expectations were justified: Ulm and Austerlitz put matters right, and Austria paid £1,800,000 in kind and £1,600,000 in bar gold.

1809. Similarly the campaign against Austria in 1809 brought in £4,000,000 in contributions and £2,000,000 in kind.

The one theatre of war in which this system broke down was Spain, which, owing to its exhausted condition, could only pay but half of the £28,000,000 which the war cost France.

Altogether the wars of 1805 to 1810 cost France some £24,840,000, and during this period the taxes were not abnormally high, and there was enough money to carry out extensive internal improvements.

1811. The vast preparations for the war with Russia caused an extra expenditure of £4,600,000, and brought in a deficit of £2,440,000.

1812. This deficit was still further augmented by the disastrous campaign of 1812, in spite of the sale of £14,800,000 worth of Crown lands and the sacrifice of the Crown treasures. The Battle of Leipsic compelled the raising of the taxes, which brought in £4,800,000, which Napoleon increased

by £7,800,000 from his private fund.\* On his abdication there was a deficit of £23,920,000 and a large floating debt. Added to this, France had to pay an indemnity of £1,000,000.

On his returning from Elba, money and war material were greatly deficient. From May, 1814, to February, 1815, only £40,000 had been spent on the army. In addition to the Royal War Budget for 1815, which equalled £11,920,000, Napoleon estimated that £2,040,000 was necessary to re-equip the army. His position was a serious one. He was averse to loans, and could not increase the taxation for fear of unpopularity. Luckily, on March 20 £2,000,000 was found in the Treasury, and during April, May, and June the taxes were paid in. Some £120,000 worth of bonds from the sinking fund, covered by the same amount on credit in national securities, was negotiated, and this transaction produced some £1,600,000, clear of discount.

The buyers of State forests were required to pay in full.

State property in stocks were secretly taken and sold, and forged duplicates put in their place, a transaction which brought in £1,400,000.

The sum of £2,240,000 was drawn from the sinking fund, and a national loan of £6,000,000,

\* Napoleon always kept a private war-chest, and used it for extreme occasions, and for presents to his troops, thus creating a personal attachment to himself. The exact amount of this chest was never known, but was reported at one time to have amounted to £80,000,000.

secured on State forests, was made; and to it all tax-payers were compelled to subscribe sums equal to the total of their land and personal taxes.

The £960,000 necessary for the equipment of the National Guard was found by—

1. Substitute fund.
2. Sale of one-quarter wood reserves.
3. Taking one-tenth of the Communal revenue.
4. Free-will offerings.

England. The English Government, thinking that the French Revolutionary Government was only but a passing phase, decided to cover the cost of the wars against it by loans.

Very soon they were undeceived, and by 1795 £50,000,000 had been taken up for war, while in 1796 this was increased by a further £43,000,000.

Such huge sums could not but cause an effect on the quotations of loans, which sank from 97 per cent. in 1792 to 50 per cent. in March, 1797. The larger subsidies, which had to be paid in specie, exhausted the metal reserves of the bank, which had to discontinue cash payments from 1797 to 1811.

At last the Government were forced to raise the taxes, nearly all subjects for taxation, including food, being utilized, the income-tax rising to 10 per cent.

In 1792 the revenue from taxation was

£20,000,000, which in 1811 amounted to £80,000,000, while in 1815 it rose to £100,000,000.

Altogether the wars with Napoleon cost England £831,446,449, no less than £601,500,343 being added to the National Debt between the years 1793 and 1816.

During 1813-1815 England had paid Russia a <sup>Russia.</sup> subsidy of £4,200,000 yearly; the balance of Russia's expenses were made up by the issue of paper, which amounted to £24,800,000. The price of this paper varied from 22·5 per cent. in 1811 to 39·6 per cent. in 1813, and 25·7 per cent. in 1816. As may be imagined, the finances of Russia took long recovering, and the recovery was delayed by the Turkish War of 1828, which cost Russia £27,200,000. On this came the Crimean War; 1854 cost Russia £9,300,000, 1855 £16,900,000, and the total period 1853-1855 £53,300,000. To meet this expenditure, in 1854 £1,800,000 Treasury bills were issued, and the rest was obtained in loans, covered by the note-issuing banks, the capital of the National Banks being increased to £3,000,000, and the necessary covering to the paper being reduced from one-third to one-sixth. In 1855 a loan of £5,000,000 was issued.

In 1859 Russia had some £73,500,000 paper in circulation. Yet the price of this paper never sank low (1853, 99·5 per cent.; 1854, 94·2 per cent.; 1855, 93 per cent.).

1854-  
1855.  
England.

The Crimean War cost England £74,000,000, of which £33,000,000 was added to the National Debt and the rest paid by increased taxation.

1855.  
France.

The expedition to the Crimea cost France some £66,400,000. To pay this France raised her taxes, and imposed a war tax, which brought in £2,080,000, and issued loans.

The Ital-  
ian War,  
1859.

The Italian War of 1859 cost France £15,000,000, and Austria £21,666,666.

War of  
Seces-  
sion.

The fact that neither North nor South was in itself an entity before the war led to the circumstance that there was no preparation of any sort, either in men or material. The outbreak of war found the Federals' chest absolutely empty; current Government taxes and customs were so scanty that their raising had little effect, and in such distrust was the Union held by foreign nations that there was little or no prospect of foreign loans.

On February 8, 1861, an attempt was made to float a loan of £5,000,000 at 6 per cent., but success was only partial, and £1,600,000 had to be withdrawn, but even then they sank to 83 per cent. before being subscribed.

In May, 1861, the larger banks considerably helped the Government's position by taking up £1,280,000 of State bonds at 85 per cent., and £440,000 in 6 per cent. State bills. In June

Washington was threatened, and the Government only succeeded in raising £1,000,000 at sixty days on security of 6 per cent. Treasury bills; and it is probable that the finances of the North would have broken down altogether had it not been for the efforts of individual States.

In July the Congress approved of the taking up of a loan of £50,000,000, but the defeat of Bull Run prevented the loan being raised. Luckily the banks once more came to the rescue, and took up £10,000,000 of  $7\frac{3}{4}$  per cent. Treasury bills; a further £10,000,000 was raised in October.

All this borrowing, coupled with little military success, began to have its effect, and both State and banks began to lose credit. Further loans being therefore impossible, the Government had to resort to the issue of paper, which was made legal tender, while to assist its currency it was ordained that this paper could be exchanged into 6 per cent. bonds; and £100,000,000 of 6 per cent. bonds, repayable in from five to twenty years, were issued. These measures for a time kept up the price of paper money, but in December, 1862, owing to defeats on the Potomac and to Fredericksburg, it sank to 60 per cent., and the taxes were raised. But 1863 brought with it fresh reverses, and in March taxes were raised once more: a loan of £180,000,000 at 6 per cent. was voted, and £10,000,000 of paper in small values

issued. The paper sank to 51 per cent., while the State debt reached to £219,600,000.

In 1863-1864 the gross receipts from Customs and taxes reached £42,400,000 as against £8,300,000 in 1861-1862.

By 1864 the paper money had reached the sum of £108,800,000, which, of course, made its value fall correspondingly, and rendered it particularly susceptible to the slightest influence of defeat in the field. The gold exchange, which after Vicksburg was 22 per cent., rose to 130 per cent.

About this time the Government appealed with effect to the people, and the following was the message which was answered by the immediate taking up of a loan: "Now is not the time for an inhabitant of the land to look around into the condition of the market, or to inquire how he can get the highest return for his superfluous capital. Neither profit nor gain are to be wished for when they are followed by national disasters or dissolution. A gain obtained under such circumstances is the predecessor of future rapid decay. No placing of capital guarantees so safe a profit as that which insures national progress."

The improved military situation of the North at the end of 1863 brought a corresponding improvement in the financial condition, and loans were obtainable in Europe if the high rate of interest was paid; but once more, in July, 1864, when the

Southern corps again threatened Washington, the gold exchange rose to 185 per cent.

From December, 1864, a commencement was made to change the crowd of paper money into a loan of £122,000,000 worth of  $7\frac{3}{4}$  per cent. Treasury bonds, and once more the taxes were raised; but in April, 1865, the Southern army surrendered, and the gold exchange fell at once to 44 per cent.

The war had swelled the National Debt from £10,800,000 to £536,400,000, and, besides this, £144,200,000 paper money were in circulation.

The war is a good example of how much easier it is for a rich land to support burdens which would crush a poorer, and at no time during the war were military operations interfered with owing to dearth of funds.

The story of the Southern States is, on the other hand, an example of how an unlimited issue of paper must lead to bankruptcy in case of defeat. Hard as was the case of the North to raise credit, that of the South was much harder, and practically the only outer loan they were able to float was one of £15,000,000 at 7 per cent. in Paris, secured on cotton, and even up to January, 1863, only £29,000,000 could be raised from inner loans; they were thus practically forced to issue paper.

In July, 1861, a war tax of  $\frac{1}{2}$  per cent. on all property was imposed. This produced £3,340,000 in 1862; a tax of 20 per cent. on all incomes was added, and in 1863 taxes were raised on all neces-

saries, capital, and trade, and 10 per cent. on all silver and gold objects, while in 1864 the income-tax was raised 5 per cent.

Besides all this, the country had to find £29,000,000 in supplies in kind for the army.

By January, 1864, £146,200,000 of paper money was in circulation.

The gold exchange rose from 50 per cent. in April, 1862, to 200 per cent. in February, 1863, and 2,000 per cent. at the end of 1863.

This state of things was impossible, and in 1864 an effort was made to raise the price of paper, and it was made convertible into 4 per cent. bonds; but as more paper had to be issued, the device was useless.

Then £100,000,000 5 per cent. bonds, with interest payable in gold and guaranteed on the Customs, were issued.

By the summer of 1864 the gold exchange was 3,500 per cent.; January, 1865, 6,000 per cent.; and finally paper became valueless, for by the peace the North would not recognize the State debt of the South.

The sum of £500,000,000 thus became valueless.

But it is noteworthy that it was not through the dearth of gold that the South were beaten.

Both North and South had expended during the war £560,000,000.

1866. At the outbreak of the war Prussia had a war-chest of £2,150,000. The troops crossed the

frontier, and lived by requisition almost immediately, so that an issue of £11,250,000 was enough for the next expenses, and a further credit of £9,000,000 was used merely to refill the war-chest.

Altogether the war cost Prussia some £18,450,000, and from this the value of contributions must be deducted.

Austria, however, did not come through the war so easily ; she started the war still suffering from the war of 1859.

In May £12,333,333 State notes were issued, and their circulation made compulsory, and at the same time a loan of £5,000,000, secured by the State, was floated. Venice was forced to subscribe a loan of £3,000,000, and was heavily taxed.

The lack of ready-money at the outbreak of hostilities hindered the Austrian mobilization.

A loan of £25,000,000, voted on July 7, was not taken up, and the Bank of Venice advanced £5,000,000 in notes.

In August the Government was forced to issue £7,500,000 in notes, and £4,160,000 in 5 per cent. securities.

On July 14 the total metal gold stood at 140 per cent. of paper money. Altogether at peace, Austria was in a very bad way.

The Austria-Prussian War involved an expenditure of £66,000,000.

The total cost of the war to Italy was £16,000,000.

## CHAPTER III

### HOW THE COST OF WAR HAS BEEN MET—*continued*

1870—1905

Franco-  
German  
War,  
1870-  
1871.

AT the outbreak of hostilities Germany possessed a State treasure of £4,500,000. The effect of this was almost incalculable, and on November 4, 1871, Bismarck stated in the Reichstag: “If we had not had the treasure, we should not have been able to gain the two days’ start which prevented the invasion of the whole right bank of the Rhine.”

On July 21 a sum of £18,000,000 was voted; this was not immediately wanted, and the first loan was not placed on the markets till after the first of the preliminary war panic was over (August 3). In spite of this, however, of the loan, which was attractive—viz., £15,000,000 at 5 per cent.—only £10,200,000 were subscribed. The German financiers were sitting on the fence, watching events; the small military event of the French advance to Saarbruck had an inordinately big influence on the market, which, however, was soon counterbalanced by Weissenburg, Worth, and Spicheran. After these victories money was forthcoming,

and this was the easier in that the German armies were fed to a large extent on requisition on the French. In order to fill the deficit, however, in the issue of the first loan, £6,000,000 worth of 5 per cent. short-term (four to nine months) Treasury bills were issued, and of this the Prussian Bank took up £3,600,000.

On October 17 the Government issued a loan of 1870. £3,000,000 at  $95\frac{3}{4}$  per cent.

On November 29 a law was passed raising the sum for the war by £15,000,000; of this sum, £14,250,000 was in Treasury bills, repayable in November, 1875. These bills only reached a quotation of 92·5 to 95·25; the rest was made up in one-year Treasury bills, of which much went to England, as it was thereby hoped to increase the German gold reserve.

A third credit of £18,000,000, voted in April, 1871, was not required, as meanwhile large contributions from France had been received.

During the war a total sum of £5,805,000 was voted, but was not all expended.

On August 22 a 5 per cent. loan of £1,250,000 at 92 was issued, and was, owing to German victories, immediately seven times oversubscribed.

The war cost Germany for 245 days the sum of Wagner. £215,000 a day for a strength of 1,254,376 men, or 5 marks per man per day.

The 4 per cent. Prussian State loan fell from 93·5 on July 1 to 77·75 on July 15. Paper money

of the Prussian Bank sank 22 per cent., and that of most of the banks and the shares of companies 40 per cent.

At this juncture the influence of the loan banks was extremely beneficial, for by lending money they prevented the sale of goods and shares below their value. These loan banks issued Government guaranteed notes.

On the whole the Prussian Bank, too, did well, issuing notes on the war treasure ; in order, however, to keep up its gold revenue it was forced to raise its rate from 5 to 8 per cent.

The note circulation rose from £25,650,000 to £30,300,000 on August 6. Throughout the whole war, however, the payment of notes in gold remained in force.

On August 19 the bank was able to resume its normal discount.

*France.* The condition of French finance was not, however, so sound ; to begin with, her finance at the outbreak of the campaign was far from satisfactory, and this condition was made considerably worse by German victories, and by the fact that France was maintaining both her own and her enemy's armies.

In 1815 the National Debt of France was some £70,040,000, which rose in 1830 to £140,160,000, and to £516,920,000 in 1870.

As France possessed no State treasure, the first expenses of the war were met out of the available

money in the State banks, and £32,000,000 from the Bank of France ; at the same time the Customs were raised.

On August 13 an inner war loan was raised, and no difficulty was found in placing this. Once, however, the tide of war began to turn in favour of Germany, only one foreign loan of £8,036,000 could be raised, and this was taken up by the American house of Morgan ; this was due partially to the effect of war, and partially to the unsatisfactory state of French finance. The Bank of France came to the rescue, and this it was able to do, as at the outbreak of war it had a reserve of some £52,000,000 in specie ; altogether, the Bank of France placed some £61,200,000 at the Government's disposal.

Immediately after the defeat of August 10 the compulsory payment of notes in gold was suspended, and in order to keep a reserve stock of gold, notes were given a forced currency. This was no hardship, as at the time the bank had two-thirds of its note issue covered in gold, and in order to prevent a decrease of the value of notes, the paper issue was limited to £72,000,000. On September 9, however, the publication of the gold reserve was stopped, and henceforth no one knew what the exact value of paper was.

This did not, curiously enough, much affect the price of notes ; the gold exchange was very little more than normal throughout the war. But when

we judge the case of France, we must not under-reckon the extreme patriotism which prevailed, and the abnormal accumulation of unsuspected and unused wealth.

The war indemnity demanded from France was £200,000,000, and was met chiefly by loans. The first loan, of £80,000,000, issued at 82·5 per cent., was more than doubly subscribed in six hours.

The second, of £140,000,000 at 84·5 per cent., was, owing to speculative causes, subscribed to the extent of £1,640,000,000.

1877-  
1878.  
Russia.

War against Turkey was declared, in spite of the protests of the Minister of Finance, who was still struggling to rectify the finances of Russia after the Crimea. The fact, however, that Russia possessed no real metal coinage made the covering of the cost by the issue of paper easier than would otherwise have been the case.

In October, 1876, the Government issued £10,000,000 5 per cent. Treasury bills to cover the cost of mobilization. These were extremely badly received, and were in consequence sold to banks, who issued credit notes.

This was followed by the issue of £30,000,000 of paper money.

A war loan of £20,000,000 at 5 per cent. found no success with the public, and was eventually taken up by the banks.

On May 26, 1877, a foreign loan was issued,

but the conditions were so unfavourable that a nominal value of £30,700,000 only actually brought in £22,900,000.

Once more, in February, 1877, short-term Treasury bills to the amount of £15,000,000 were issued and easily disposed of.

Altogether some £113,000,000 was raised for the war, and only £7,300,000 came from abroad.

The amount of credit notes issued by the State banks rose some £50,000,000, in consequence of which the value of paper receded, and the gold exchange, which before the war had been 15 per cent., rose from 50 to 60 per cent.

The total cost of the war was £102,000,000, or 8s. per head per day.

Of the sum of £211,560,000 due for the war, South Africa. two-thirds, or, roughly, £150,000,000, was raised in Treasury bills, exchange bonds, and loans, while one-third, or £75,000,000, was raised by taxation.

Of this sum of £75,000,000, more than half—viz., £40,680,000—was obtained by raising the income-tax, the remainder being obtained by indirect taxation—*i.e.*,

1. Raising the tea, beer, brandy, and tobacco duties.
2. Introduction of import tax on sugar of 4s. 2d. per cwt.
3. Introduction of corn and meal tax of 3d. per cwt. of corn and 5d. per cwt. meal.

#### 4. Introduction of an export tax on coal of 1s. per ton.

In issuing the Treasury bills, loans, and bonds, great care was taken to influence the market as little as possible, and to create an atmosphere of speculation. Thus the Treasury bills issued repayable in six to twelve months were for the most part taken up by savings-banks, etc., and scarcely affected the market. The 3 per cent. Exchequer bonds, repayable in three to four years, were issued in two parts, £5,000,000 being transferred to an English-American syndicate, while another £5,000,000 were negotiated by public subscriptions.

In March, 1900, the first war loan of £30,000,000 (repayable on April 5, 1910),  $2\frac{3}{4}$  per cent. at  $98\frac{1}{2}$ , was more than eleven times oversubscribed. This tremendous oversubscription is explained by the fact that, in order to tempt speculation, the issue price was fixed at  $98\frac{1}{2}$ , which was  $2\frac{1}{2}$  per cent. less than the ruling price of  $2\frac{3}{4}$  per cent. Consols. The loan, being short-termed, did not affect the ordinary  $2\frac{3}{4}$  per cent. Consols.

In April, 1901, for the first time since 1856, new English Consols were issued. The issue amounted to £60,000,000,  $2\frac{3}{4}$  per cent., convertible into  $2\frac{1}{2}$  per cent. in 1903, but unredeemable before 1923. Half of this—*e.g.*, £30,000,000—was again taken up by the English-American syndicate at the price of  $94\frac{1}{2}$ ; the other half was issued in public subscriptions (monthly instalments at the same

price). The loan was subscribed seven times over.

In April, 1902, a further issue of £32,000,000 Consols,  $2\frac{3}{4}$  per cent., was made. Half of this was taken up by an American-English bank syndicate at  $93\frac{1}{2}$ , while the other half was offered for public subscription at the same price, and payable in six monthly instalments. This loan was over-subscribed.

Besides these taxations and loans, the sum of £9,400,000 was obtained by suspending the Sinking Fund.

The average price of  $2\frac{3}{4}$  per cent. Consols were : 1899, 107.18; 1900, 99.13; 1901, 94.29; 1902, 94.35.

At the outbreak of the war Russia's National Russo-Japanese War. Debt was some £87,000,000. For the first expenses of the war the Government had at its disposal £31,400,000. At first the cost of the war worked out at some £5,000,000 a month, rising in 1905 from £8,000,000 to £9,000,000. Besides this £31,400,000 the Russian Bank had at its disposal the gold of the Russian Bank, which at the beginning of the war amounted to £73,300,000 in bar and £16,900,000 in foreign gold credit. In 1903 the paper in issue was £58,000,000, covered by £88,290,000 in gold.

The first war loan was issued in Paris, in May, 1904, some £30,000,000 at 5 per cent., redeemable in five years at par. The price of issue was

95½. The greater part of the proceeds of this loan were used to augment the gold revenue of the Bank of Russia, thus putting the bank in the position to borrow further sums cheaply. This loan was supplemented by raising the taxes on patents, urban estates, certain goods, and travellers ; but no great increase of taxation took place, for fear of making the war more unpopular than it was already.

In August, 1904, an inner loan, on account of Japanese victories, in the form of short-termed 3½ per cent. *Rentes*, was issued. A total of £15,000,000 were issued, the Bank of St. Petersburg taking £10,000,000. In January, 1905, just before the fall of Port Arthur, a loan of £25,000,000 at 4½ per cent. (repayment would be claimed in six to nine years) at par was issued in Berlin, and reached a price of 95½ per cent. Taxes on legacies, beer, yeast, matches, and lamp-oils were raised, while the pay of officials was reduced, the extra taxation from 1904 to 1905 bringing in £6,500,000, most of which was devoted to the administration of the loans.

The disastrous news from the front made the foreign loans too expensive, and the home market had to be drawn on. In March, 1905, the Russian Bank took up a 5 per cent. loan of £20,000,000 at 94, issuing it at 96.

Once more an attempt to raise a loan in Paris failed, owing to Tsushima. In May a new issue of

nine-month Treasury bills at 5 per cent. was made. The issue amounted to £20,000,000 ; £5,000,000 of this went to Russian banks, and £15,000,000 to Germany, under a special percentage of 1 per cent.

Finally, in August, 1905, a third inner loan of £20,000,000 at 5 per cent. was issued. This was irredeemable for forty-eight years, and was taken by the banks at 95, and issued at 96½. Russian finance was conducted on one principle—*i.e.*, “That for inland expenses and those for the theatre of war inner loans should be raised, whilst for outside expenses outer loans should be raised.” These outer loans totalled some £68,500,000.

Altogether some £128,000,000 was raised for the war, while the note issue during the war had risen from £57,870,000 to £109,560,000, the gold reserve rising from £90,000,000 to £116,000,000. The possession of the bank of a gold reserve of £150,000,000 at the time of peace had a great effect on peace conditions.

|   |    |    |    |              |
|---|----|----|----|--------------|
| Russia issued 3 foreign loans—5, 4½,<br>and 5 per cent. | .. | .. | .. | £68,150,000  |
| Russia issued 4 inner loans—3½, 5, and<br>5 per cent.   | .. | .. | .. | 60,000,000   |
|   |    |    |    | £128,150,000 |

and it is noteworthy that, in spite of the grave political unrest and heavy military defeats, the interest never rose above 5 per cent.

London quotations of the State loans, which for the three years previous to the war—*i.e.*,

1901-1903—had fluctuated between 98 and  $104\frac{1}{2}$ , and on February 4, 1904, stood at 98, fell on February 9 to 91, and in February to  $87\frac{3}{4}$ , and in April to  $87\frac{1}{2}$ . In August, 1905, they rose to 94.85, and remained only 4 per cent. less than they stood on February 4, 1909. This was due to the financially good peace terms which Russia obtained.

Japan.

Japan was not so well prepared financially before the war as Russia, who long previous to the outbreak had concentrated a big supply of gold in its banks. Japan began the war with £13,000,000 in its State Bank. She had, therefore, to prepare the national credit, as well as raise money for current expenses. In 1903 the notes in use in Japan amounted to £19,800,000, covered by a reserve of £11,250,000, and the State owed the bank £3,700,000. Although Japan had yearly set aside a certain sum for the war, this was not enough, and recourse had to be had, not only to the raising of present taxes, but to the introduction of new ones. Taxes on ground, incomes, legacy, sugar, drinks, mining, and tobacco were largely raised, while new taxes on railways, trams, and sea-passage tickets, petroleum, salt, and camphor, were introduced.

The estimated revenue of the war taxes exceeded the whole ordinary income of the State Budget of every year before 1899.

For the first expenses of the war—*i.e.*, till the end of March, 1904—£15,600,000 was raised :

£2,500,000 out of special funds, £10,000,000 in short-termed Treasury bills, £3,100,000 in other ways.

At the outset the war cost Japan £4,300,000 a month. Average cost per month, £6,650,000.

It was always Japan's ideal to, as far as possible, cover the cost of war by taxation and Customs; but this, of course, was impossible, and recourse was made to loans. In February, 1904, the first inner loan of £10,000,000, 5 per cent. at 95, was issued, which was more than four times subscribed.

In May, 1904, the first outer loan of £10,000,000, 6 per cent. at 93½, repayable at par in 1911, was issued in London, and was oversubscribed thirty times.

In June, 1904, an inner loan of seven-year 5 per cent. Treasury bonds at 92 was issued. The total of this issue was £10,000,000, and was three times oversubscribed.

In November, 1904, a further £8,000,000 of these bonds were issued, and two and a half times oversubscribed; while in the same year a foreign loan of £12,000,000, secured on Customs, repayable in 1911, carrying 6 per cent. interest and with a quotation of 90½ per cent., was issued. This was eight times oversubscribed in London, and the proceeds were used to increase Japan's gold reserve.

By the end of 1904 Japan had raised some £64,000,000, which made the monthly cost of the war work out at £4,300,000.

In February, 1905, an inner loan of £10,000,000, seven-year 6 per cent. Treasury bills at 90, was issued, followed in March by a foreign loan of £30,000,000. This carried  $4\frac{1}{2}$  per cent. interest, and was to be repaid in twenty years; it was taken up by banks at  $86\frac{1}{4}$ , and issued to the public at 90, and was guaranteed on tobacco monopoly.

In March, 1905, an inner loan of £10,000,000 was issued.

In July, 1905, Japan's gold reserve was £10,000, against the Russian £100,000,000, and to strengthen her hands for peace negotiations Japan issued an inner loan of £30,000,000, with the same condition as the last. This loan was oversubscribed.

The Japanese loans amounted to £130,000,000, £80,000,000 of which came from abroad.

The Bank of Japan lent £11,750,000 to the State, and in January, 1904, the metal reserve was £11,500,000, and in June, 1904, £6,400,000, which meant that the covering for notes was  $33\frac{1}{3}$  per cent. In 1905 the gold reserve amounted to £14,000,000, and in September, 1905, to £12,190,000, for a note issue of £25,250,000—i.e., 48 per cent.

The Japanese raised the following :

|                       |    |    |             |
|-----------------------|----|----|-------------|
| Special funds         | .. | .. | £6,300,000  |
| Surplus and economies | .. |    | 9,640,000   |
| New taxes             | .. | .. | 13,730,000  |
| Loans                 | .. | .. | 116,750,000 |

and at the end of the war had a sum in cash of £30,000,000, so that the war cost £116,000,000, or £5,800,000 a month.

The average price of the 4 per cent. Japanese loan of 1899 in London was, on December 15, 1903, = 84 ; January, 1904, = 76.05 ; February, 1904, = 69.21 ; March, 1904, = 64.58 ; August, 1905, = 87 ; October, 1905, = 91.

### THE COMPARATIVE FINANCIAL STATUS OF THE TWO COUNTRIES AT THE END OF THE WAR.

Russian war loans of £143,600,000 caused the Russian National Debt to be increased by 19 per cent. ; Japanese war loans of £121,200,000 by 22 per cent.

#### RUSSIAN LOANS.

|   | Nominal Value in Millions. | Issue Price in Millions. | Russo-Japanese War. |
|---|----------------------------|--------------------------|---------------------|
| Russian <i>foreign</i> loans, 1904-1905 :         | Roubles.*                  | Roubles.                 |                     |
| 5 per cent., Paris, May, 1904 .. ..               | 300                        | 282                      |                     |
| 4½ per cent., Berlin, Amsterdam, January, 1905 .. | 231                        | 209                      |                     |
| 5 per cent., Berlin, Amsterdam, May, 1905 .. ..   | 150                        | 142                      |                     |
| Russian <i>inner</i> loans, 1904-1905 :           |                            |                          |                     |
| 3½ per cent., August, 1904 ..                     | 150                        | 150                      |                     |
| 5 per cent., March, 1905 ..                       | 200                        | 188                      |                     |
| 5 per cent., May, 1905 ..                         | 50                         | 47.5                     |                     |
| 5 per cent., August, 1905 ..                      | 200                        | 190                      |                     |
|   | £128,150,000               | £121,500,000             |                     |

\* 25 roubles .. .. £1 11 9  
 100 roubles .. .. £6 7 0  
 1,000 roubles .. .. about £60 0 0

## JAPANESE LOANS.

|   | Nominal Value in Millions. | Issue Price in Millions. |
|---|----------------------------|--------------------------|
| Japanese <i>foreign</i> loans, 1904-1905 :        | Yen.*                      | Yen.                     |
| 6 per cent., London and New York, May, 1904 ..    | 97.630                     | 89.3                     |
| 6 per cent., London and New York, May, 1904 ..    | 117.156                    | 101.6                    |
| 4½ per cent., London and New York, March, 1905 .. | 292.890                    | 252.6                    |
| 4½ per cent., London and Berlin, July, 1905 ..    | 292.890                    | 250.4                    |
| Japanese <i>inner</i> loans :                     |                            |                          |
| 5 per cent., February, 1904                       | 100                        | 98                       |
| 5 per cent., May, 1904 ..                         | 100                        | 92                       |
| 5 per cent., November, 1904                       | 80                         | 73                       |
| 6 per cent., March, 1905 ..                       | 100                        | 90                       |
| 6 per cent., April, 1905 ..                       | 100                        | 90                       |
|   | £128,050,000               | £113,450,000             |

Russian State Bank began the war with £122,500,000; Japanese State Bank began the war with £13,000,000.

Russian gold reserve at the end of the war stood at £150,000,000; Japanese gold reserve at the end of the war stood at £50,000,000.

The drop in interest after Japanese victories is remarkable. The absence of a big reserve made a high rate necessary.

The Japanese floated their inner loans before their foreign, thus using up their securities before borrowing on them.

|              |    |    |            |     |   |    |
|--------------|----|----|------------|-----|---|----|
| * 20 yen ..  | .. | .. | ..         | £2  | 0 | 11 |
| 100 yen ..   | .. | .. | ..         | £10 | 4 | 7  |
| 1,000 yen .. | .. | .. | about £100 | 0   | 0 |    |

## CHAPTER IV

### THE EFFECT OF WAR ON MONEY, AND *VICE VERSA*

**I**N the three preceding chapters the actual cost of war and the various ways it has been met have been discussed.

From what has been written it will be seen that the effect of war on money has not been so marked as one might well have supposed. At first sight it would seem that the fear of loss would so paralyze the market that loans would be extremely hard to get. Yet this is not the case. If given time, the most extravagant expenditure may be met almost without a shock. The reason is not far to seek. Owing to the rise of banking and the facilities of communication, the markets of the world, for the purpose of meeting such an emergency, are as one. The days of hoarding money are past. Money must be invested, and the fear and consequent decrease of enterprise which a large war invariably produces provides the means for its own sustenance by stopping the employment of capital in other directions, so that, if a nation is prepared to pay the interest, money can be borrowed.

Certainly, to a limited extent, war, owing to the destruction of capital, makes money dearer, but a great European war, such as 1870, in which the spendings and borrowings amounted to £200,000,000, did not produce really dear money. The bank rate of the Bank of France rose to 6 per cent., but it was the only country in which it remained at so high a figure. In July and September, 1870, there was a momentary panic in Europe.

On July 21 the Bank of England rate was raised from 3 to  $3\frac{1}{2}$  per cent. ; on July 28, 5 per cent. ; on August 4, 6 per cent. ; on September 15, it had fallen to 3 per cent. again.

Although money does not become of necessity very dear, the connection between operations in the field and prices on the Stock Exchange is most intimate, and often the effect of a military operation of no importance has the most far-reaching effect "on 'Change.'" Thus the French advance to Saarbruck practically prevented the raising of the German war loan.

During the course of the Franco-German War the French 3 per cent. dropped from 73 to 66, and later, after Sedan, to 53. Practically the ebb and flow of victory can be read from the quotations on the Stock Exchange (compare the Japanese loans in 1904-1905).

Money is at its tightest immediately on the outbreak of war. At this time something in the

nature of a panic sets in : there is a great demand for money, for payments of debts, for payment of contractors, and for mobilization expenses ; and there is also a great fear in the minds of investors, who wish to convert their securities into tangible gold.

This mad rush raises the price of loans and decreases the value of stocks, and the gold in the banks, which does duty threefold, is withdrawn.

This phenomenon must be recognized as being the constant accompanying factor to a declaration of war, and it must be guarded against, for its results are serious.

After a few weeks things begin to find their proper level, and the panic subsides ; but it is at the beginning that money is wanted, and that is the time when money is tight, and almost impossible to get, and that is the time when a war-chest, such as the Germans have at Spandau, will be of the greatest use.

Then, too, war has its effects on foreign exchanges, as well as on quotations and rates of interest. In 1862, just previous to the Civil War, much capital was sent from America to England, and at the same time, owing to the Southern States losing command of the sea, the export of cotton was stopped. These two facts at once had their effect on bills of exchange. Bills in London rose to a premium, and rose higher still owing to an Act being passed in America suspending specie

payments, and authorizing the issue of inconvertible Government paper. Foreign bills rose 50 to 200 per cent, and in the Southern States bills on England actually rose to 400 per cent.

In this connection the power of command of the sea must not escape us. It was largely owing to its loss that the Southern States could get no money.

In 1871, without the command of the sea, the Government of National Defence would never have been able to raise the money to equip its hastily improvised armies.

Then, lastly, there is the effect of war on paper money. We have seen how, when wisely used, the effect of paper has been great (*vide* Russia and Japan, and Germany in 1870), and how, when ill-secured and overissued, the slightest reverse renders the paper useless (*vide* Southern States).

To summarize, the effect of war on money is—

1. At the outbreak to cause a panic, and then make the issue of loans for the first few days of the war impossible.

2. During the subsequent course of the war to slightly increase the dearness of money.

3. To raise and depress the quotations on the Stock Exchange as the tide of victory ebbs and flows.

4. To upset the balance of the whole system of foreign exchanges.

Then there is the other side of the question—viz., “how money affects war.”

A Roman was once asked which he would prefer, a lump of iron or a lump of gold. "I will take the iron, as I can then get the gold after," was the wise reply. The same holds good among nations. If well prepared for war, money borrowed to carry through a war may be an excellent investment (*vide* 1870), and if this holds true, so does the converse: 'If you have got gold, and want to keep it, prepare in time for war.'

It has been shown how easy it is to borrow money under present-day conditions, and how exceptionally easy it becomes for a well-armed and victorious people, and therefore it is improbable that any nation with reasonable chances of victory will be deterred from declaring war owing to lack <sup>\*</sup> of funds. But lack of funds, especially in a country where the people are not desirous of war, and where defeats are more numerous than victories, may have very far-reaching effects. At a time when industry is stagnating taxes will have to be raised, and the lot of those people who dwell on the borderland of penury will be unbearable. Obviously, under these circumstances, a State in which taxation is not already high, where government is strict, where agriculture exceeds manufacture, and where wealth is equally distributed, will best survive the crisis. Thus the Southern States, though bankrupt, fought on, and were not compelled through lack of funds to make peace.

In March, 1871, stoppage of work caused disorder in France, and in 1871 ~~150~~ per cent. were agriculturists.

In the Russo - Japanese War Kuropatkin's strategy was dictated from home, according to the needs of keeping disorder in check—with what disastrous results this was attended we all know.

In this respect the United Kingdom does not appear in a favourable light.

In France, out of every 10,000 inhabitants, 429 are in trade ; in Germany, out of every 10,000 inhabitants, 347 are in trade ; in Russia, out of every 10,000 inhabitants, 67 are in trade.

Moreover, Russian industry ~~is~~ is based on her consumption, yet the Russian disasters in the East were largely due to disorder at home.

In every 1,000 men there are—

|                               | United Kingdom. | Germany. |
|-------------------------------|-----------------|----------|
| Profession .. .. ..           | 33              | 40       |
| Domestic .. .. ..             | 62              | 40       |
| Trade .. .. ..                | 44              | 50       |
| Agriculture .. .. ..          | 67              | 410      |
| Industry .. .. ..             | 239             | 400      |
| Without settled occupation .. | 555             | 40*      |

And the difference between an autocratic and democratic Government would in time of internal disorder in war-time be soon shown.

During the Crimean War, when the import from

\* "War," Bloch.

Russia only ceased, the price of wheat in England rose 80 per cent.

The creation of internal disorder is probably the way in which money will most vitally affect a nation at war.

The Russo-Japanese War seems to point otherwise, but on reflecting, it will be seen that the Russo-Japanese War in this respect, as in many others, is somewhat unique.

At the time of the peace negotiations both Russia and Japan were finding it difficult to raise fresh loans, but the financial position of Russia was infinitely superior to that of Japan.

Russia had in hand some £300,000,000, against Japan's £100,000,000; and while Russia was paying in interest but 6 per cent. of its ordinary income, Japan was paying 29 per cent.

The effect of this financial position is shown in the terms of peace.

But, owing to the circumstances of the case, Japan had been unable to strike at the heart of Russia, while her troops were victorious, and while money was to be got.

In the course of a war between France and Germany, or England and Germany, it is probable that the decisive blow will be struck before the money of either combatants begins to run short.

## CHAPTER V

### ENGLAND IN COMPARISON WITH OTHER NATIONS

WE are the richest country in Europe, and our riches, if properly used, are no doubt of great power to us; but, on the other hand, they may be a source of great weakness—the weakness of overconfidence, which may cause us to make inadequate preparations for war, and which may make us ignore the fact that our wealth is very unevenly distributed, and that we are already heavily taxed.

It is not the collective wealth of the country, but the comparative capacity of the masses to be able to face the taxation and hardship, that will tell in war.

Our financial position must be compared with other nations.

The points to be noted from the following table are the relative smallness of the population of the United Kingdom in comparison to the revenue. Owing to our insular position, the smallness does not matter as long as the taxation per head is not excessive.

## NATIONAL REVENUE AND POPULATION.

|                   | Population.    | Revenue.         |
|-------------------|----------------|------------------|
| Austria .. ..     | 49,425,000     | £89,479,212 (a)* |
| Hungary .. ..     | 19,254,000     | 55,618,000 (b)*  |
| France .. ..      | 39,252,245 (b) | 156,423,347 (a)  |
| German Empire     | 60,641,278 (c) | 127,087,175 (a)† |
| Italy .. ..       | 33,441,484 (b) | 76,785,059 (a)   |
| Japan .. ..       | 47,215,630     | 48,565,000       |
| Russia .. ..      | 152,009,300    | 238,600,000      |
| United States ..  | 76,356,000     | 120,225,200      |
| British Isles ..  | 44,538,718     | 154,350,000      |
| British Empire .. | 410,000,000    | 400,000,000      |

(a) For 1908; (b) 1906; (c) 1905.

The proportion of these revenues derived from taxation is—

|                        | Revenue.    | Per Head of Population. |
|------------------------|-------------|-------------------------|
| Hungary .. .. ..       | £27,750,000 | £1 9 0                  |
| Japan .. .. ..         | 35,050,000  | 0 15 0                  |
| Austria .. .. ..       | 51,850,000  | 1 19 0                  |
| Italy .. .. ..         | 58,500,000  | 1 16 0                  |
| Germany .. .. ..       | 103,650,000 | 1 14 0                  |
| France .. .. ..        | 122,850,000 | 3 2 0                   |
| Great Britain .. .. .. | 123,100,000 | 2 19 0                  |
| Russia .. .. ..        | 137,550,000 | 1 2 0                   |

This table does not show Great Britain in a favourable light. The taxation, already being £219s.

\* Austria and Hungary each pay a percentage to cover expenses, such as—Austria, 63·6; Hungary, 36·4.

† All the German States pay a certain proportion of this revenue to the common expenses of the Empire; this proportion totalled £127,087,175 in 1905. If we add total revenues of States = £240,000,000.

per head, does not allow of a very great increase in time of war. Recourse will have to be made, as usual, for the larger amount of money to loans, which will, of course, swell the National Debt.

NATIONAL DEBTS, 1905.

|                 |    |  | Per Head of Population. |
|-----------------|----|--|-------------------------|
| Japan           | .. | ..   | £2 4 0                  |
| Italy           | .. | ..   | 15 4 0                  |
| Austria-Hungary | .. | ..   | 13 3 0                  |
| Great Britain   | .. | ..   | 13 3 0                  |
| Germany         | .. | ..   | 12 7 0                  |
| Russia          | .. | ..   | 6 2 0                   |
| France          | .. | ..   | 31 0 0                  |
|                 |    | £104,050,000<br>497,925,000<br>602,735,000<br>757,860,000<br>772,410,000<br>777,110,000<br>1,218,400,000 |                         |

England devotes £7,000,000 annually, on an average, to pay off the National Debt. In the years 1907-1908 the National Debt was reduced by £14,000,000.

Since 1905 the German National Debt has increased to £838,319,500, but the money has been used for productive undertakings—*e.g.*, railways and mines.

Cost of interest and administration, £37,650,000. State undertakings show a profit of £50,750,000.

EXPENDITURE ON ARMY AND NAVY, 1906.

|                 | Army. | Navy.      | Shillings per Head. |
|-----------------|-------|------------|---------------------|
| Japan           | ..    | £5,475,000 | 4·12                |
| Italy           | ..    | 11,280,000 | 10·08               |
| Austria-Hungary |       | 20,450,000 | 10·09               |
| Great Britain   | ..    | 28,620,000 | 30·45               |
| France          | ..    | 38,975,000 | 25·15               |
| Russia          | ..    | 41,238,000 | 8·38                |
| Germany         | ..    | 44,355,000 | 19·13               |

1907.

## RUSSIAN BANK.

Capital, £5,400,000. Notes and deposits, £183,265,000=  
32 per cent. Reserve, £540,000.

## BANK OF FRANCE.

Capital, £7,715,000. Notes and deposits, £220,010,000=  
4 per cent. Reserve, £1,400,000.

## BANK OF HOLLAND.

Capital, £1,690,000. Notes and deposits, £23,405,000=  
9 per cent. Reserve, £425,000.

## BELGIUM.

Capital, £2,025,000. Notes and deposits, £33,230,000=  
10·2 per cent. Reserve, £1,380,000.

## AUSTRIA-HUNGARY.

Capital, £8,925,000. Notes and deposits, £87,960,000=  
10·9 per cent. Reserve, £650,000.

## GERMANY.

Capital, £9,000,000. Notes and deposits, £102,905,000=  
11·9 per cent. Reserve, £3,240,000.

## BANK OF ENGLAND.

Capital, £14,865,000. Notes and deposits, £84,550,000=  
21·2 per cent. Reserve, £3,065,000.

This shows a very satisfactory state of affairs for England, but there is one factor—a most essential one as far as loans and panies are concerned—and that is the gold reserve.

HOW THE GERMANS PROPOSE TO RAISE MONEY  
FOR THE NEXT WAR.

The 5,000,000 richest people in the United Kingdom have an income of £900,000,000.

The 17,000,000 richest Prussians have an in-

come of £600,000,000. The aggregate income of 38,000,000 Prussians is £800,000,000.

The aggregate income of 44,000,000 Britons is £1,800,000,000.

Only 14.87 per cent. of the population of Germany come under the income-tax. Of these, 89.60 per cent. have incomes of £45 to £150; 7.18 per cent. have incomes of £150 to £3,250; 3.22 per cent. have incomes of over £3,250.

The Germans estimate that £122,500,000 will be required during the first six weeks of mobilization, and that one year's war will cost some £324,000,000.

The following is the proposed method of raising this £122,500,000:

The money voted for domestic purposes will be suspended (under this head Russia saved £13,500,000), and this sum will be placed in the bank as a reserve on which to issue three times the value in notes. There is a law in Germany which compels people to supply troops in time of war. These supplies could, of course, be paid for in notes.

In 1907 the German gold reserve, inclusive of the £6,000,000 in the Juliusturm, reached £47,100,000. Of this, as has been stated, £12,500,000 will be required to meet the first panic, leaving a balance of £34,600,000. On the security of this £34,600,000, three times the amount—viz., £103,800,000—could be issued in notes. Deduct £73,400,000, the amount of notes

already in circulation, and a sum of £29,000,000 remains.

NOTE.—For purposes of mobilization Germany keeps a war-chest at the Juliusturm, Spandau. This was formed at the instigation of Bismarck out of the French indemnity, and consists of £6,000,000 in the form of gold 20-and 10-mark pieces.

Now this estimate is based on 1907, which is admittedly an extremely bad financial year for Germany. Since 1907, too, 50- and 20-mark notes have been issued, and it is hoped soon to issue 10-mark notes, thus allowing more gold to be kept in the hands of the bank, so that a future estimate would be more probably: gold reserve, £65,000,000, and Juliusturm, £6,000,000—a total of £71,000,000, upon which notes to the value of £213,000,000 could be issued. Deduct the £75,000,000 notes in circulation, and £138,000,000 reserve for first expenses.

In arriving at this estimate, the sum allowed for panic withdrawals has not been subtracted, as the German reserve is big in comparison with the £73,940,000 paper.\*

In the proposals for meeting the first expenses of the war there is no mention of raising a loan. Instead of heightening the unavoidable panic by issuing a loan at the beginning of a war, all efforts in Germany will be made to draw all gold to the bank, where it does thricefold duty, and to prevent the gold reserve being diminished, as it will be,

\* France has £194,870,000 paper.

not only by the panic withdrawals of its own people, but by the financiers of other countries. In this way will the circulation of notes be facilitated and the raising of loans made easy.

In 1870, during the first seven days of the war, when financial panic was at its highest, and a victory or defeat uncertain, the Prussian Government tried to issue an inner loan, only 68.5 per cent. of the total amount of which was subscribed.

At the time of the Morocco trouble the Crédit Lyonnais withdrew £1,600,000 of its money which was at that time lying in Germany.

The Germans have seen the necessity of increasing their gold revenue on the eve of war in order to issue notes and raise loans as cheaply as possible, and as soon as war breaks out they contemplate taking steps to prevent this revenue diminishing.

Dr. Riesser, an eminent German writer on finance, advocates—

1. The issue of small-value paper in peace-time, to accustom the people to its use, and to increase the specie reserve.

2. The passing of a law compelling notes to be accepted as legal tender (bank-notes are legal tender in England).

3. The passing of a law abolishing all necessity on the part of banks to change notes into gold.

The same course was adopted in France in 1870, although the gold reserve at that date was not

less than £40,000,000, and the bank-notes did not amount to more than £60,000.

Finance Minister Magne thus expressed his views : “ Nous avons une réserve de 1 milliard ; c'est une ressource immense, conservons la ; elle aura à juste titre un effet matériel sur les affaires et un effet novel sur l'opinion ; elle facilitera la circulation des billets.”

The objections to note issue to a large extent disappear when they are founded on an adequate gold reserve.

Briefly, the German proposals are—

1. To increase the gold reserve.
2. To issue notes to the value of three times that reserve.
3. To prevent the reserve diminishing by making bank-notes legal tender.
4. To raise a certain proportion of their expenses by taxation,\* but to rely chiefly on loans after the first panic of war has subsided.

How is England going to raise money for the next war ? It has been estimated that a normal war will cost us some £334,000 a day, or £121,910,000 a year, and it is probable that this sum will be raised, as in former wars—two-thirds loan, one-third taxation.

\* For this purpose the German income-tax affords a vast field for taxation (1907). At present but 14·87 of the population come under the income-tax. Of these, 89·60 have incomes of £45 to £150 ; 7·18, £150 to £3,250 ; 3·22, over £3,250.

How is this one-third taxation to be raised ? We have seen that already our taxation amounts to nearly £3 per head, and is the second highest in the world. Our income-tax, which is the traditional means of raising war taxation, already stands at war level ; it has never been allowed to sink since the South African war. A large increase in the income-tax is an impossibility ; and, in fact, turn where you will, you will find that it is impossible to raise the taxation without touching Free Trade, and it is perfectly obvious that we shall have to take the same course as we did at the time of the Boer War, and tax certain articles, and, in fact, employ some sort of tariff.

A good tariff cannot be introduced in a hurry ; it is a thing which is evolved from experience and study, and its full proceeds would not be immediately forthcoming. This being so, would it not be far better to introduce a tariff in peace-time, and thus reduce the income-tax, so that by means of raising the income-tax, you have an immediate and easy way of increasing your taxation in time of war ?

How are we to meet the first expenses of the war without heightening the panic inseparable from the declaration of war by raising a loan ?

For this purpose a war-chest, such as that kept by Germany, would be extremely useful ; but, of course, there are disadvantages in keeping large sums of money lying idle, and it is extremely

improbable that we shall ever have a war-chest.

We have, however, a Sinking Fund—*i.e.*, the sum voted annually for the paying off of our National Debt.\* In 1905-1906 the Sinking Fund amounted to £11,855,000, in 1906-1907 to £18,715,000, and in 1907 to £15,530,000.

This is a great factor in raising our public credit, and a great resource in war, and every effort to raid it or cut it down in peace-time cannot be too strongly combated.

Besides the Sinking Fund, there is the money voted for domestic purposes, the payment of which would be suspended. These two sums amount to a considerable total, which, if utilized as a reserve on which to issue notes, would do duty threefold.

In order to familiarize the people with paper, more of the latter should be brought into circulation in time of peace. If notes as low as 10s. were issued, much business could be carried on through this medium, and people would not be alarmed at notes in time of war. The gold which these notes represent could be withdrawn from circulation and kept as a reserve. If the law provided for a very liberal covering sum in the bank in time of peace, no harm would result, and in war the issue of notes could be expanded. The

\* By the law of January 3, 1906, Germany only pays off  $\frac{3}{5}$  per cent. of her National Debt.

German proposals as to making all notes legal tender, and suspending the obligation of the banks to change the notes into gold in time of war, seem worthy of imitation.

As things stand now, there is no compulsory gold reserve in the Bank of England at all, and, until there is, no certainty as to loans or as to possibilities of note issue, etc., and war policy, and finance, can be made to work together.

At present the amount of the gold reserve is left entirely to the Directors of the Bank of England, who labour between a desire to show their shareholders a good dividend by employing all capital and a desire to avoid creating a panic by allowing the reserve to fall too low.

In December, 1824, coin and bullion in the Bank amounted to £10,721,000; in December, 1825, it fell to £1,266,000. Although it was peace-time, a panic ensued.

When one realizes that the Bank of England is the only reserve in the country (for nearly every provincial bank lodges its reserve with the Bank of England), and that, since the suspension of specie payments in Paris, in 1870, London has become the banking-house of the world, the danger is apparent.

The Bank reserve from 1904-1905 has averaged £24,375,000. On September 30, 1908, notes issued amounted to £54,799,130; Government debt amounted to £11,015,100; other securities

amounted to £7,434,900 ; gold coin and bullion amounted to £36,349,130.

We must have a compulsory reserve if we are to calculate our plans at all beforehand.

To us there is one road open, and that is to reduce the cost of our army.

The amounts required in peace for the personnel of our minute army and navy are £13,000,000 and £9,329,800 respectively, and owing to this smallness in peace-time, and to the half-prepared state of our mobilization arrangements, the cost of mobilization on the outbreak of war will be great. Here the remedy is obvious and easy—“compulsory and universal service.”

*In conclusion, a summary of the deductions from what has been written will perhaps be not out of place.*

1. That undoubtedly wealth does give a nation great benefits, but that it will only bear fruit if the people make sacrifices in time.

2. That no nation will be stopped from plunging into war by dearth of money. War loans contracted by a people who are thoroughly prepared for war are a sound national investment (*vide* 1870).

3. That loans will always be forthcoming to provide the sinews of war ; their flotation will be easier and cheaper if the borrower is not himself exhausted (*vide* Russia, 1904-1905). They should be issued in a suitable form at a suitable time (*cf.* Germany, 1870).

4. That the cost of war is not so stupendous as has been imagined, and that though it may be crushing to the vanquished, it may possibly be trifling to the victor (*cf.* 1870).

5. That the increased cost of living due to war may perhaps bring about civil disaster, and thereby influence the campaign.

6. That during war money has little effect. It is before the war, in making preparations, or after, in making peace, that its effect is felt.

7. That the people of England should realize that unless they make sacrifices in time—*i.e.*, form a national insurance by preparations for war—they will suffer the same losses as did France in 1870.\*

The fact that peace and war conditions are entirely dissimilar must be recognized. Great wealth is of little avail against a successful invader.

\* The Germans have never ceased regretting that they imposed a war indemnity on France only of £200,000,000. It is probable that, were the chance to recur, this indemnity would be nearer £1,000,000,000.



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